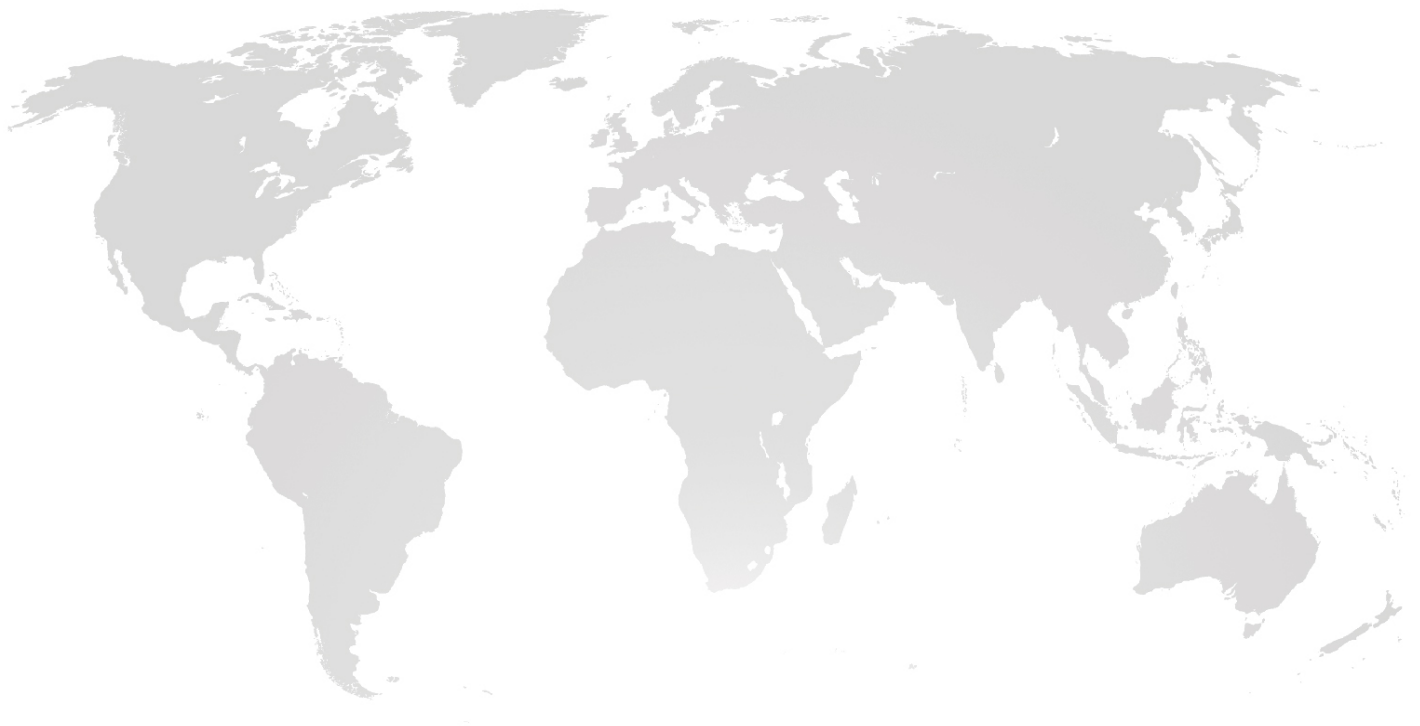


# Country Insight Snapshot

## Japan

October 2016





## OVERVIEW

**OVERALL COUNTRY RISK RATING:** DB2d

**Low risk:** Low degree of uncertainty associated with expected returns. However, country-wide factors may result in higher volatility of returns in future.

G

**Rating Outlook:** Stable

## CORE OUTLOOK

- + The production of nuclear energy has resumed.
- + Japan ranks first in the world in terms of local supplier quantity.
- There are no signs that the demographic problem is improving.
- Japan still lags behind most developed countries in terms of female labour participation.

## KEY DEVELOPMENT

The current account improves due to cheap energy prices and plummeting imports, but the outlook for external demand remains weak.

### CREDIT ENVIRONMENT OUTLOOK

A

**Trend:** Stable

Key Development has had a positive impact on the outlook.

### SUPPLY ENVIRONMENT OUTLOOK

G

**Trend:** Stable

Key Development has had a neutral impact on the outlook.

### MARKET ENVIRONMENT OUTLOOK

A

**Trend:** Stable

Key Development has had a neutral impact on the outlook.

### POLITICAL ENVIRONMENT OUTLOOK

G

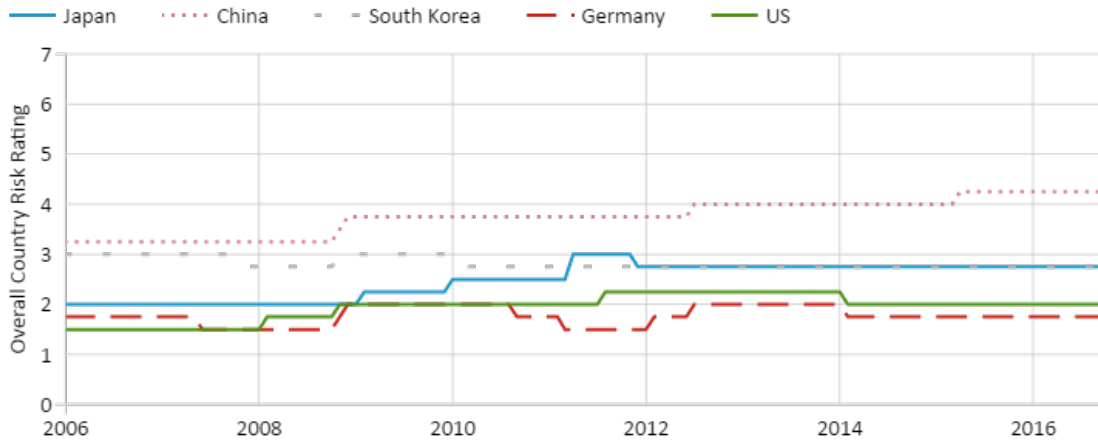
**Trend:** Stable

Key Development has had a neutral impact on the outlook.



## KEY INDICATORS

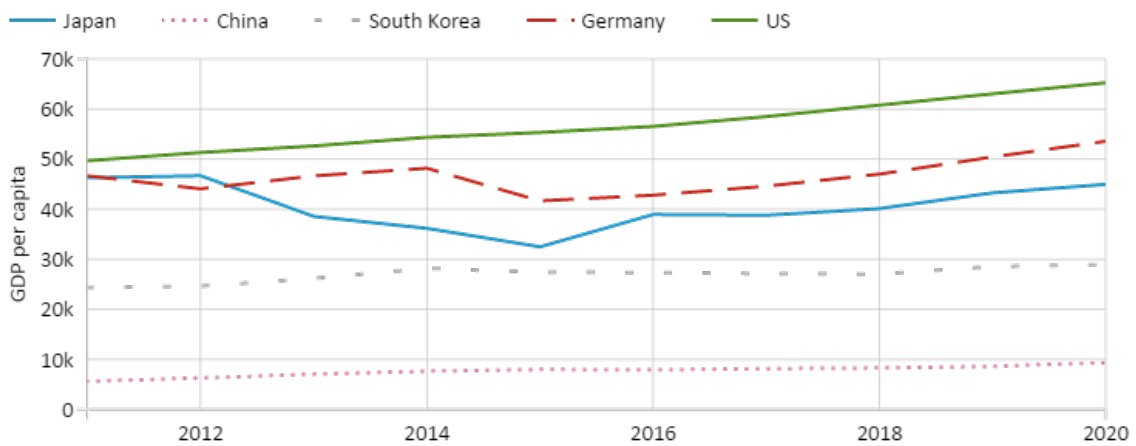
### Rating History and Comparison



Source : Dun & Bradstreet

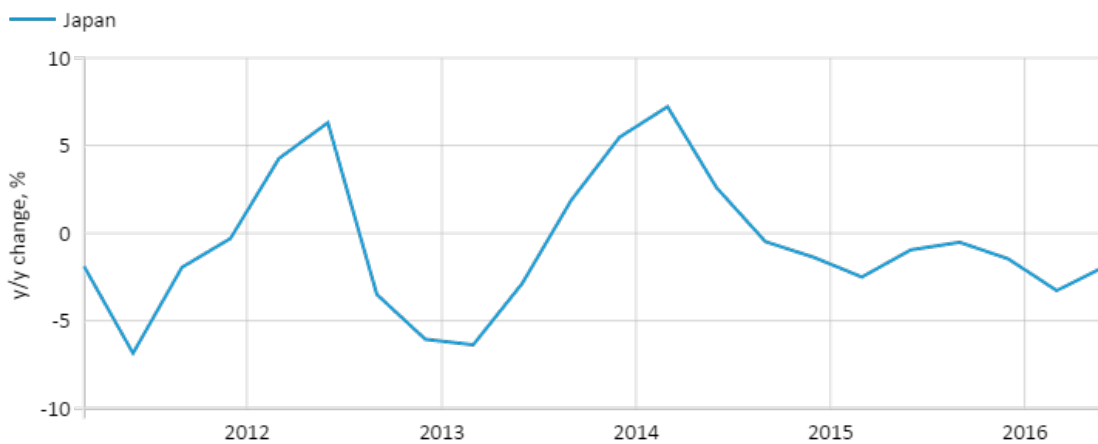
Note: 1 = Low Risk, 7 = High Risk

### Regional Comparisons



Source : Haver Analytics/Dun & Bradstreet

### Industrial Production Growth (Quarterly)



Source : Haver Analytics/Dun & Bradstreet



## Economic Indicators

Indicator	2013	2014	2015	2016f	2017f	2018f	2019f	2020f
C/A balance % GDP	0.9	0.8	3.3	3.7	3.9	4.0	3.7	3.6
Govt balance, % GDP	-8.6	-6.2	-5.2	-5.2	-5.1	-4.4	-3.9	-3.2
Inflation, annual avge %	0.3	2.8	0.8	-0.3	0.5	1.0	1.2	1.2
Real GDP Growth, %	1.4	0.0	0.5	0.5	1.0	1.5	1.0	1.0
Unemployment, %	4.0	3.6	3.4	3.2	3.3	3.3	3.5	3.6

Source : Haver Analytics/Dun & Bradstreet

## TRADE AND COMMERCIAL ENVIRONMENT

According to Tokyo Shoko Research, the number of bankruptcies fell 3.9% year on year (y/y) in the six months from April to September. This remains the lowest failure number in 26 years, when records began. Seven out of the ten surveyed sectors posted bankruptcy decreases; the services sector is among those where the failure rate was higher than a year ago. According to the survey, good credit conditions and lenient repayment policies from the banking sector are among the main reasons for the declining bankruptcy rate. In September alone, the failure rate was 3.4% lower y/y. Looking ahead, the failure rate may increase should the Yen strengthen further; however this is not our baseline scenario.

## TRADE TERMS AND TRANSFER SITUATION

### **Minimum Terms: OA**

*The minimum form of documentation or trading method that Dun & Bradstreet advises its customers to consider when pursuing export trade with the stated country.*

### **Recommended Terms: SD**

*Dun & Bradstreet's recommended means of payment. The use of recommended terms, which are generally more stringent than minimum terms, is appropriate when a customer's payment performance cannot be easily assessed or when an exporter may wish to limit the risk associated with a transaction made on minimum terms.*

### **Usual Terms: 30-90 days**

*Normal period of credit associated with transactions with companies in the stated country.*

### **Local Delays: 0-1 month**

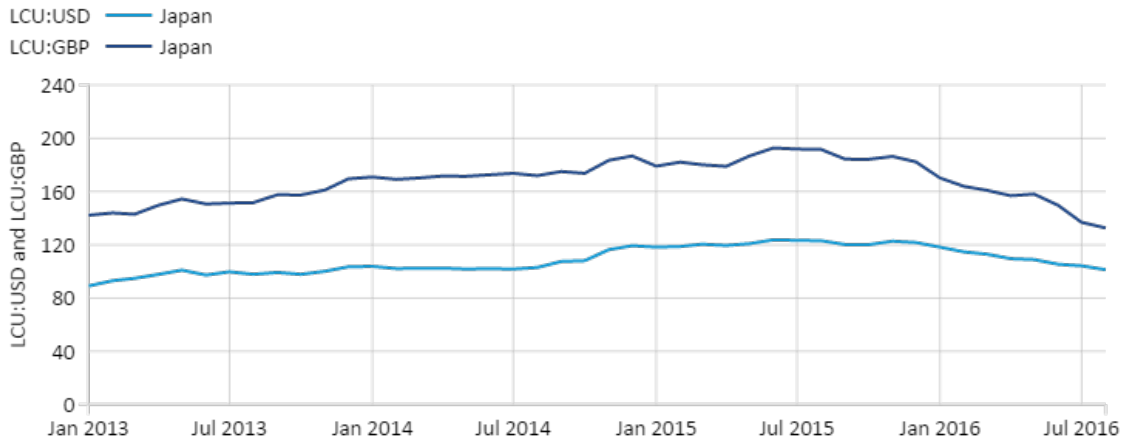
*The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.*

### **FX/Bank Delays: 0-1 month**

*The average time between the placement of payment by the importer in the local banking system and the receipt of funds by the exporter. Such delays may be dependent on FX controls, FX availability and the efficiency of the local banking system.*



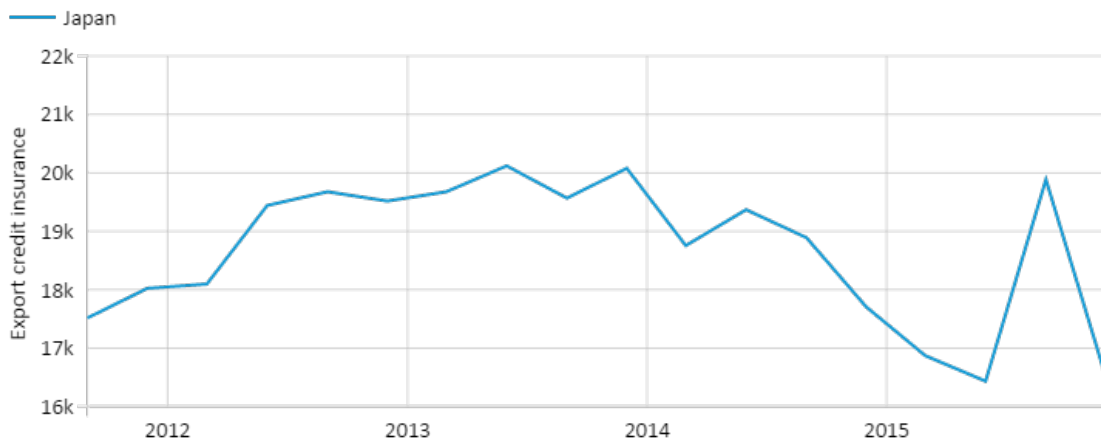
## Exchange Rate



Source : International Monetary Fund/Dun & Bradstreet

*LCU (local currency unit) = Japanese yen*

## Credit Conditions



Source : Export Credit Agencies

*Insured export credit exposures, USDm*



## RISKS AND OPPORTUNITIES

### FX Risk

#### *Current account improves*

Japan's current account has improved substantially in the last quarters, reducing fears that the energy trade deficit and the stronger yen will take the current account back towards the red. In August, the surplus was 23% higher in year on year (y/y) terms. The main reason for the improvement has been a better trade performance, the effect of the stronger Yen (the currency has appreciated by around 15% over the course of 2016) which has been more than compensated for by the low energy prices. In USD terms, exports of goods were 9.9% higher y/y in August, while over the whole of Q2, exports increased by 1.9% y/y. Against the backdrop of plummeting imports (imports of goods were almost flat in August, contracted by 10.9% in July, and by 8.6% in Q2), this leads to an improved net trade position. It is difficult to conclude anything about the strength of demand for Japanese goods, as a lot of the trade balance variation is due to currency movements (in Yen terms, for instance, exports have fallen for 11 straight months). However, other information, such as Chinese trade data, suggests weak external demand. As such, we expect the current account surplus to improve, but to still remain under 4% of GDP.

As the odds increase for a December US Federal Reserve interest rate hike, the Yen is subjected to depreciating pressures. The Yen has weakened towards 104 per USD over the course of September/October. If the Fed interest rate increase materialises (possibly also auguring a steeper US interest rate path over 2017), then the Yen will very likely test the 110 threshold again. The Yen has been extremely volatile in the last years and we recommend companies exposed to the Japanese currency to make use of hedging instruments.

### Short-Term Economic Outlook

#### *Recovery still weak*

The latest high-frequency indicators suggest Japan's economic recovery remains fragile. As of August, retail sales had contracted six months in a row, and factors supporting consumption, such as wages and households' sentiment, do not point to an immediate improvement. Household spending had fallen 4.6% y/y in August, while wage growth was slightly negative (-0.1% y/y). Annual headline inflation is once again negative, with prices falling by 0.5% in August. More positively, the manufacturing sector posted 1.2% y/y growth in August, but this comes in the wake of a very weak H1 2016. Meanwhile, the latest quarterly Tankan survey (published in October by the central bank), held steady relative to Q2 and suggests that the stronger Yen has not had an overly negative impact on large corporates. Both the overall index and that of large companies are in positive territory, while small and medium sized companies reported the largest improvement in conditions. We have revised upwards our GDP forecast for this year to 0.5% (up from 0.3%), chiefly as a result of the better-than-expected trade balance.



## COUNTRY PROFILE AND STATISTICS

### Overview

Japan consists of four main islands (Hokkaido, Honshu, Shikoku and Kyushu) and a large number of smaller islands, and lies southeast of the Korean Peninsula. Much of the country is mountainous, with a small (but significant) forested element; usable land is intensively settled and developed. The climate varies from tropical in the south to cool temperate in the north.

Japan's GDP is still the third-largest in the world. Privileged by its security relationship with the US and Cold War importance, Japan grew rapidly after 1945. However, in the aftermath of the 1980s 'bubble economy', land and real estate prices slumped by 80%, unemployment rose, and there were deep recessions in 1998 and 2002.

Japan will be an involuntary pioneer in gauging the effects of an ageing society. Meanwhile, the even income distribution and universal sense of middle-class identity for which Japan was famous are disappearing, owing to reduced government redistribution of income between regions.

### Key Facts

Key Fact	Detail
Head of state	Emperor AKIHITO
Capital	Tokyo
Timezone	GMT +09-00
Official language	Japanese
Population (millions)	127
GDP (USD billions)	4,125.1
GDP per capita (USD)	32,486
Life expectancy (years)	83
Literacy (% of adult pop.)	99.9
Surface area (sq km)	377,910

Source : Various sources/Dun & Bradstreet

### Historical Data

Metric	2011	2012	2013	2014	2015
Real GDP growth (%)	-0.5	1.7	1.4	0.0	0.5
Nominal GDP in USDbn	5,916	5,956	4,911	4,599	4,125
Nominal GDP in local currency (bn)	471,579	475,332	479,084	486,871	499,211
GDP per Capita in USD	46,279	46,693	38,565	36,181	32,486
Population (year-end, m)	127.8	127.6	127.3	127.1	127.0
Exchange rate (yr avge, USD-LCU)	79.71	79.81	97.56	105.86	121.02
Current Account in USDbn	129.6	60.1	46.4	36.0	135.6
Current Account (% of GDP)	2.2	1.0	0.9	0.8	3.3
FX reserves (year-end, USDbn)	1,258.2	1,227.2	1,237.2	1,231.0	1,207.0
Import Cover (months)	15.6	15.0	15.8	16.1	16.6
Inflation (annual avge, %)	-0.3	-0.1	0.3	2.8	0.8
Govt Balance (% GDP)	-9.8	-8.8	-8.6	-6.2	-5.2

Source : Haver Analytics/Dun & Bradstreet



## Forecasts

Metric	2016f	2017f	2018f	2019f	2020f
Real GDP growth (%)	0.5	1.0	1.5	1.0	1.0
Nominal GDP in USDbn	4,926	4,889	5,036	5,408	5,597
Nominal GDP in local currency (bn)	522,175	537,840	553,975	567,825	587,699
GDP per Capita in USD	38,942	38,805	40,129	43,263	44,957
Population (year-end, m)	126.5	126.0	125.5	125.0	124.5
Exchange rate (yr avge, USD-LCU)	106.0	110.0	110.0	105.0	105.0
Current Account in USDbn	180.0	190.0	200.0	200.0	200.0
Current Account (% of GDP)	3.7	3.9	4.0	3.7	3.6
FX reserves (year-end, USDbn)	1,219.1	1,231.3	1,243.6	1,256.0	1,268.6
Import Cover (months)	16.8	17.4	17.8	18.4	18.6
Inflation (annual avge, %)	-0.3	0.5	1.0	1.2	1.2
Govt Balance (% GDP)	-5.2	-5.1	-4.4	-3.9	-3.2

Source : Haver Analytics/Dun & Bradstreet

## Comparative Market Indicators

Indicator	Japan	China	S. Korea	Germany	US
Income per Capita (USD)	32,486	8,000	27,441	41,665	55,326
Country Population (m)	127	1,376	50.3	80.7	321.8
Internet users (% of population)	93.3	50.3	89.9	87.6	74.5
Real GDP Growth (% p.a., 2016 - 2025)	-0.5 - 1.2	3.5 - 6.5	1.5 - 3	1.8 - 3	1.8 - 2.5

Source : Various sources/Dun & Bradstreet





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